Before the
Federal Communications Commission
Washington, DC 20554

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Federal Communications Commission
Office of the Secretary

In the matter of	)	
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Federal-State Joint Board on Universal Service	)	WC Docket No. 05-337 CC Docket No. 96-45
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	)	

To: The Federal-State Joint Board

COMMENTS OF

UNITED STATES CELLULAR CORPORATION

David A. LaFuria
Steven M. Chernoff
Lukas, Nace, Gutierrez & Sachs, Chartered
1650 Tysons Blvd., Suite 1500
McLean, VA 22102
703-584-8678

James R. Jenkins
Vice President - Legal and External Affairs
United States Cellular Corporation
8410 West Bryn Mawr
Chicago, IL 60631
(773) 864-3167

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SUMMARY

United States Cellular Corporation ("USCC") supports the efforts of the Joint Board and the FCC to develop a more complete record of the advantages and disadvantages of an auction-based system for distributing high-cost universal service support. USCC agrees that there is a need for improvements to the high-cost program so that it better serves the universal service principles of competitive neutrality and rural-urban comparability. Additionally, USCC is supportive of efforts to reduce burdens on the fund, to which it and other wireless carriers contribute in disproportionately large shares.

USCC believes that an auction-based system is not an appropriate means of promoting those and other universal service goals. It would not be competitively neutral to force carriers with immature networks to bid to compete against incumbents that have the natural advantage of being fully built out. For this reason, USCC agrees with the FCC's previous assessment that auctions would be inappropriate because "it is unlikely that there will be competition in a significant number of rural, insular, or high cost areas in the near future."

The auction proposal attached to the *Public Notice* would harm consumers by limiting competitive choice. Rather than limit support to one competitor in a given area, it is critical to establish a "per-line" amount, target support to the highest-cost wire centers, and invite all technologies to go after the identical support and the customer. In this way, support to competitors is very effectively capped as they are forced to compete for a finite number of customers. Additionally, the proposed ten-year noncompetitive term for incumbent LECs would actively retard competition in rural areas by artificially picking market winners instead of relying on consumer choice.

Any auction scheme would also fail competitive neutrality if service areas are not defined for all carriers in a way that avoids the problem of irregular, mismatched boundaries. Service areas would need to be small, defined for example along county boundaries, so that all carriers bid on identical territory.

Finally, USCC urges the Joint Board to reject the concept of separate auctions for separate services. Given the speed with which technology is moving, any auction scheme which locks one carrier into a ten-year term, especially for a broadband offering, will forestall infrastructure development in rural areas and preclude competitive carriers from entering on a level playing field consistent with the principle of competitive neutrality.

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United States Cellular Corporation ("USCC"), by counsel and pursuant to the Commission's *Public Notice*, "Federal-State Joint Board On Universal Service Seeks Comment On The Merits Of Using Auctions To Determine High-Cost Universal Service Support," FCC 06J-1, __ FCC Rcd __ (Jt. Bd. rel. Aug. 11, 2006) ("*Public Notice*"), hereby provides the following comments.

I. Introduction.

USCC appreciates the opportunity to provide comment in this proceeding, which will determine whether rural consumers see the benefits of accelerated wireless infrastructure development in their areas. The Joint Board must determine whether the Commission's policy direction, set in 1996, will continue to reward efficient carriers and stimulate the health, safety, and economic development benefits that only wireless communications can bring to rural America.

USCC provides PCS and cellular services in 44 MSAs, 100 RSAs, 1 MTA and numerous BTAs throughout the country. Roughly half of the company's customers reside in rural America. USCC has received ETC status and is currently receiving high-cost support covering operations in Washington, Iowa, Wisconsin, Kansas, Oregon, Maine and Oklahoma. USCC has customer satisfaction levels that exceed every industry metric and as a result its churn rates are among the best in the industry.

As such, USCC is qualified to provide the Joint Board with comments on the matters addressed in the *Public Notice*, including how difficult it will be to implement an auction structure that is consistent with the twin goals set forth in the Telecommunications Act of 1996, to advance universal service and promote competition throughout the country. To date, the FCC has provided exactly the correct incentives for rural CMRS carriers – especially those that are invested in their communities – to improve this nation's critical wireless infrastructure. Meaningful reforms that accomplish the goals of the 1996 Act can and should be implemented within the current universal service rules.

Increasing numbers of consumers are choosing wireless service as their primary means of communication, and wireless providers are shouldering a large and growing share of USF contributions. Wireless carriers will contribute over $2.5 billion into the federal universal service fund this year, or roughly 35% of the total. With the recent increase in the CMRS safe harbor for universal service contributions to 37.1% of revenues, wireless will contribute substantially more next year, and in coming years.[1] Yet, between 1996 and 2005 wireless competitive eligible telecommunications carriers ("CETCs") drew, in the aggregate, only around

[1] *Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, IP-Enabled Services,* WC Docket No. 06-122, CC Docket No. 96-45, CC Docket No. 98-171, CC Docket No. 90-571, CC Docket No. 92-237, NSD File No. L-00-72, CC Docket No. 99-200, CC Docket No. 95-200, CC Docket No. 95-116, CC Docket No. 98-170, WC Docket No. 04-36, *Report and Order and Notice of Proposed Rulemaking* (rel. June 27, 2006).

$1 billion — roughly 5% of all high-cost support — and will draw only about 14% of the funds in 2006.

As of 2005, incumbent wireline carriers have drawn, in the aggregate, roughly $20 billion from the system – over $3 billion in each of 2003, 2004 and 2005 alone – which amounts to approximately 95% of total high-cost support. This, to subsidize networks that consumers are abandoning whenever competitive choices are available. It will be up to the Joint Board to recommend universal service policies that recognize the fact that consumers are choosing wireless services in increasing numbers as their ***primary*** means of voice communications and that rural consumers are increasingly demanding similar service quality that urban consumers take for granted today.

Last year, Thomas L. Friedman wrote in the New York Times that he has "been thinking of running for high office on a one-issue platform: I promise, if elected, that within four years America will have cellphone service as good as Ghana's."[2] Indeed, while Ghana is building on very sparse telephone penetration, it is addressing the problem with rapid expansion of wireless service; as a result, wireless subscribers in Ghana now outnumber wireline connections by more than 5 to 1.[3] To be fair, if 20 years ago there was no telephone service in America's rural areas, nobody would advocate constructing wireline networks surely not subsidized ones and America's rural areas would today probably have wireless service as good as the African republic's.

The important point here is that much of the rest of the world, both developed and undeveloped, is effectively leap-frogging the United States with higher-quality wireless networks because their policymakers better understand that the future rests in technological innovation and

[2] *Calling All Luddites*, New York Times, August 3, 2005.

[3] Data obtained from CIA World Factbook, https://www.cia.gov/cia/publications/factbook/geos/gh.html

providing citizens with the most modern tools available to advance the nation's vital safety and economic interests. It is thus somewhat astonishing to hear some parties advocate that our universal service system has a problem because wireless CETCs are drawing an increasing share of the USF. This growth in the fund is fully consistent with Congress's vision of making high-cost support explicit, sufficient, predictable, and portable. Indeed, with such funds being invested in rural areas to build new network facilities that would not be constructed otherwise, this investment should be celebrated, especially because wireless consumers are more than paying their way, contributing 2.5 times the amount that wireless carriers are drawing out.

Many, if not most, consumers prefer wireless for voice. Thus, using universal service policy to drive wireless infrastructure development in rural America to improve service quality is not only a laudatory policy goal, but it is an absolutely critical component of our nation's homeland security and economic foundation. It is axiomatic that our nation's wireline network has flourished due to the federal universal service program, delivering enormous societal benefits. Indeed, much of the nation's rural areas would not have wireline service today but for the many decades of implicit and explicit subsidies paid out to wireline carriers. But rural areas now have wireline service and the time has come to bring the benefits of wireless service to those same areas.

The 1996 Act heralded a new era of competition – which was not limited to urban America. The Commission has since undertaken the very large task of adapting universal service policies to permit competition to grow wherever possible so that consumers may choose the carrier of their choice. There is ample evidence today that, nearly 20 years after rural wireless networks began to come on the scene, and with at least eight cellular/PCS licenses granted throughout the country, many rural areas have very poor service quality compared to urban areas. Any drive out to a rural secondary road reveals how difficult it is to hold a signal, how many areas lack high-quality digital signal, and how many areas do not have data capabilities as a result of poor coverage.

Accordingly, calls to stem universal service growth as a result of wireless CETCs being designated must be rejected. The appropriate regulatory response is to see that universal service mechanisms help rural consumers to have wireless wherever they live, work and play. Below we suggest modifications of the universal service system that will accomplish the goal of sustaining the fund in a competitively and technologically neutral way. We also discuss auctions as a possible means of furthering these goals.

II. Auctions Cannot Yield Competitively Neutral Results Until Competitive Networks Exist.

We agree with the Commission's previous assessment that "it is unlikely that there will be competition in a significant number of rural, insular, or high cost areas in the near future. Consequently, it is unlikely that competitive bidding mechanisms would be useful in many areas in the near future."[4] Use of auctions for USF support would not yield the right result if one carrier (e.g., the ILEC) is fully built out in the area, and the other(s) (e.g., the competitive ETCs such as wireless carriers) have immature networks. Until there are mature wireless networks and regulators can determine that an area is competitive, the use of auctions will not be competitively or technologically neutral. A carrier with an immature network, that needs substantial capital to construct network facilities throughout an area, cannot reasonably be expected to bid competitively against a carrier that has already completed a network build-out and does not require such capital.

[4] *Federal-State Joint Board on Universal Service, Report and Order*, 12 FCC Rcd 8776, 8950-51 (1997) ("*First Report and Order*")

This is true even if the newcomer is substantially more efficient, because it is impossible to know what to bid until a network has been fully constructed. Once a competitive network has been constructed, a competitor will have sufficient information regarding construction and operating costs to bid on a level playing field with an incumbent.

In sum, any auction that goes forward with networks of varying maturity will naturally favor the more mature network and thus fails the test of competitive neutrality.

III. Auction Rules Must Incorporate Principles of Competitive and Technological Neutrality.

Competitive neutrality is a core universal service principle.[5] In implementing the 1996 Act, the Commission has consistently ruled that competitive neutrality requires all ETCs to receive the same amount of per-line support. For example:

> We reiterate that ***federal universal service high-cost support should be available and portable to all eligible telecommunications carriers, and conclude that the same amount of support (i.e., either the forward-looking high-cost support amount or any interim hold-harmless amount) received by an incumbent LEC should be fully portable to competitive providers.*** A competitive eligible telecommunications carrier, when support is available, shall receive per-line high-cost support for lines that it captures from an incumbent LEC, as well as for any "new" lines that the competitive eligible telecommunications carrier serves in high-cost areas. ***To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount.*** While hold-harmless amounts do not necessarily reflect the forward-looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. ***Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.***[6]

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[5] *Id.* at 8801 ("Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules neither unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another.")

[6] *Federal-State Joint Board on Universal Service, Ninth Report & Order and Eighteenth Order on Reconsideration*, 14 FCC Rcd 20432, 20480 (1999) (footnotes omitted) (emphasis added) ("*Ninth Order*"); *see also*, *Federal-State*

USCC is not aware of any viable proposal having been put forth to date for using auctions to provide an efficient level of support to all competitors. Whatever the Commission does, it must follow its own core principle of competitive neutrality and promote the twin goals of advancing universal service and promoting competition throughout America. Critical to this mission is establishing a "per-line" amount, targeting support to the highest-cost wire centers, and inviting all technologies to compete for the support and the customer.

IV. The Current Universal Service Mechanism, With Modest Reform, is Superior to Auctions in Terms of Advancing Consumer Interests and Promoting Efficiency.

As we understand the *Public Notice*, what is contemplated is an auction pursuant to which competitive carriers would bid, and a "winner" would receive support to undertake universal service obligations in a rural area, to the exclusion of other competitors. The incumbent would not be subject to auctions for a decade. The Joint Board requests comment on how such a system compares to the advantages or disadvantages of the current system.

The contemplated auction scheme, particularly the ten-year transition period for rural ILECs, cannot possibly stand the test of competitive neutrality. This is especially true since the Commission has already given rural ILECs a decade of protection from competition, culminating in the *RTF Order* of 2001.[7] There, the Commission increased the fund for rural carriers by $1.26 billion and decided to not freeze support in rural ILEC study areas upon competitive entry. To now require competitors to bid against each other for the right to build a network, while rural ILECs are insulated (even though their access line counts continue to fall), will doom rural areas to second-class status well into the latter part of the next decade. Moreover, such a system

Joint Board on Universal Service, Fourth Order on Reconsideration in CC Docket No. 96-45, Report and Order in CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-7, 13 FCC Rcd. 5318 ("*Fourth Order*") (emphasis added).

[7] *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers,* 16 FCC Rcd. 11,244 (2001) ("*RTF Order*")

would actively retard competition in rural areas by artificially picking market winners. As such it is inconsistent with the Commission's mandate "to transform universal service mechanisms so that they are both sustainable as competition in local markets develops, and explicit in a manner that promotes the development of efficient competition across the nation."[8]

Limiting universal service support to only one competitive provider, and presumably compensating that provider for the cost of constructing an entire network, would not result in less support being paid out than a system of providing per-line support based on the costs of constructing an efficient network, to any number of carriers, using any technology that can deliver the supported services and willing to compete.

One of the most serious misconceptions in today's universal service debate is by those who argue that "multiple networks" should not be subsidized. Today, it is impossible to subsidize the cost of constructing multiple networks in their entirety because the amount of support in any given area is effectively capped by the number of customers within that area. That is, CETCs only receive support when they win a customer and lose support when they lose a customer. So if there are 100 customers in a remote area, CETCs that serve the area would compete for those 100 customers, and no more than 100 connections will be supported. Because competitors have to fight over a fixed number of customers, it matters not how many CETCs are designated. No carrier capable of providing the supported services is discouraged from trying to enter, yet no carrier is guaranteed to receive any support unless consumers choose its service. Thus, an auction system would be inferior to the current "per-line" support mechanism because it would chill competition.

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[8] *Federal-Sate Joint Board on Universal Service, Seventh Report & Order, and Thirteenth Order on Reconsideration in CC Docket No 96-45 Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking*, 14 FCC Rcd 8078, 8086 (1999) ("*Seventh Order*").

There are several reforms that the Commission can make that would yield a far superior universal service system than would auctions.

Reforming the current system requires three steps: (1) moving support for areas served by rural ILECs to the cost of building an efficient network; (2) targeting support to the highest-cost areas; and (3) making the fund "fully portable" by freezing support to an area upon competitive entry.

Today, non-rural ILECs serve some of the most remote and difficult to serve areas in the country, including very mountainous terrain in Maine, Vermont, West Virginia, Kentucky, and remote parts of Montana, Nebraska, Mississippi and Alabama. The non-rural high-cost support system is far superior to that which is used by rural carriers in that it does not reward inefficient investment and does not allow carriers to gain more support by investing more, irrespective whether such investments are efficient or even necessary.[9] There is no reason why the mechanism for non-rural carriers, which provides high-cost support based on the cost of constructing an efficient network, cannot be modified for areas served by rural carriers.

The current non-rural mechanism targets support to the highest-cost wire centers. That is, when a CETC enters a non-rural area, there are many low-cost wire centers within which it receives little or no support. Likewise, competitors have an incentive to build facilities in high-cost wire centers – precisely where investment should be made. The Commission has adopted rules for targeting support to areas served by rural ILECs,[10] however the failure to make them mandatory upon competitive entry has artificially increased overall support. This is because competitors typically have already constructed networks in low-cost wire centers before applying

[9] Moreover, there are roughly 400 rural ILECs still operating on the "average schedule" mechanism pursuant to which they do not submit costs.

[10] 47 C.F.R. § 54.315

for ETC status. Accurately targeting support is critical to driving benefits to consumers living in the most remote areas, who need the benefits of new investment the most. Attached as Exhibit A, we have provided an example of how targeting support reduces support to a competitive carrier.

Third, making support fully portable is a key to sustaining the fund. That is, the Commission should freeze support to an area upon competitive entry so that fund growth is controlled and all carriers are forced to compete for both customers and support. As in a competitive market, ETCs that lose customers would lose universal service funding formerly associated with serving that customer. This will further the Act's requirement to balance the advancement of universal service in a competitive marketplace.

Five years ago, the Commission committed to working through meaningful reforms by 2006. Had the reforms suggested above been implemented, today we would have a wealth of useful data that would inform the Commission whether more radical reform is required. USCC believes these modest reforms should be immediately implemented to both sustain the system and promote competitive entry throughout the nation.

V. Auctions Would Not Fit Within the Statutory Scheme for Universal Service.

The Joint Board seeks comment on "whether and how a competitive bidding proposal would serve to preserve and advance universal service and remain consistent with these important statutory goals, including rate comparability and affordability."[11] Below, we examine auctions in the context of the universal service principles set forth in Section 254.

Using auctions would result in support being specific and predictable, but only for an artificially selected subset of carriers. As such, it would not deliver the corresponding consumer benefits that arise as a result of competition.

[11] *Public Notice* at p. 3.

Using auctions would only provide the supported services at affordable rates if the Commission or the states regulating rates – since competition would be stifled. Regulating the rates of any CMRS carrier, or worse ***only an ETC***, is simply not an option. Auctions would perpetuate a monopoly, or at best, a duopoly environment. It would forestall all of the innovation currently seen in urban areas – such as flat-rated nationwide local service offerings from large ILECs. This is inferior to encouraging competitive entry and the natural price competition that comes with it.

Auctions would not promote the availability of reasonably comparable services at reasonably comparable rates in rural areas. This is the most critical of universal service goals. Auctions would limit the ability of carriers to compete in many areas and the benefits of innovation, service choices, and new technologies will be delayed or denied to consumers in many rural areas. The much better course is to reaffirm the existing principle of competitive neutrality by providing equal per-line support to all carriers willing to offer the supported services throughout a designated service area.

In sum, the use of auctions would not advance the universal service principles embodied in Section 254 of the Act as well as the current system, which provides equal per-line support to all competitive carriers in a competitively neutral fashion.

VI. Auctions Cannot be Conducted Unless All Carriers Bid on Identical Territories.

The Commission has previously found that irregular and oftentimes non-contiguous ILEC boundaries presents a significant barrier to entry for competitive carriers, none of which are licensed along ILEC boundaries. In order for any auction scheme to be competitively neutral, service areas must be defined for all carriers. USCC can think of no rationale for the proposal to allow rural ILECs to bid throughout their service areas, while also requiring other technologies to bid throughout counties. An auction is not even feasible if competitors are not operating on the same plane – that is – bidding for the same thing. Ten years after the 1996 Act, USCC is at a loss to identify a defensible rationale for insulating rural ILECs from competitive entry any longer. Service areas would need to be small, defined for example along county boundaries, so that all carriers bid on identical territory.

VII. A Ten-Year Term for an Auction Winner Will Exacerbate the Problem of Stranded Plant.

The proposal to provide an auction winner with a ten-year term is problematic because installed telephone plant is comprised of long-term assets, generally fixed into the ground (concrete, tower, T-1, microwave) and that have lengthy depreciation schedules. Dismantling network at the end of a term is not practicable. This "stranded investment" issue would be far worse than the existing wireline problem, as much wireline plant in service today is decades old and fully depreciated.

VIII. Auctions Are Not Compatible With the Commission's Equal Support Rules.

The Joint Board asks, "Should any level of support be provided to ETCs that did not 'win' the auction, and if so, what level of support should this be? Would individualized support result from the respective bids of the winners, or by some other process?"

Whatever mechanism is ultimately used, the FCC has already determined it is critical to provide identical per-line support to all market entrants to avoid economic distortions in the market.[12]

IX. Separate Auctions for Separate Services Are Not Desirable.

The Joint Board inquires, "If multiple winners are preferred, is it desirable to have separate auctions based on the means of delivering supported services to be provided (e.g.,

[12] *See supra* n.6.

broadband, mobile, fixed)?" To this, USCC responds emphatically in the negative. Any "silo" auction scheme that limits consumer choice is inferior. For example, within a few years, mobile carriers may be able to offer download speeds upwards of 10-50 Mbps – far more than wireline ILECs are offering today. Given the speed with which technology is moving, any auction scheme which locks one carrier into a ten-year term, especially for a broadband offering, will infrastructure development in rural areas and preclude competitive carriers from entering on a level playing field consistent with the principle of competitive neutrality.

X. The Discussion Proposal Contained in the Attachment to the *Public Notice* Is A Non-Starter.

Attached to the *Public Notice* is a proposal for discussion which contains a number of objectionable suggestions. The idea that the number of supported networks in a particular area should be artificially limited by a regulatory agency is anathema to the universal service principles contained in the 1996 Act. The current mechanism is market-based and, as discussed *supra*, it very effectively caps support by forcing competitors to compete for a fixed number of customers within a designated ETC service area.

The proposal to pick two winners in the marketplace and to limit their service authorizations is also a non-starter. For example, a designated wireline ETC may wish to use some wireless facilities to serve throughout an area. Or it may wish to offer mobile services. These artificial limits distort otherwise rational marketplaces and will be extraordinarily harmful to rural consumers, who will have only one choice of a mobile service provider in effect, *less* choice than they have today in many rural high-cost areas.

The proposal to require the broadband ETC to "purchase cable or satellite service where available and resell it to consumers not accessible by its own network at the same price charged for its own service . . . includ[ing] a requirement to install, maintain, and lease any required *terminal equipment" is not workable. How is such a requirement consistent with a company's* need to earn a return? How can a company bid without knowing how many households it can serve, or the cost of serving the remaining ones? Only the ILEC knows this information, and only the ILEC has been provided with support over decades in order to reach those consumers today. This proposal may lower the amount of support going to an ILEC, but it does not serve consumers' interests, as expressed in Section 254 of the Act, to provide explicit and portable USF to competitors that wish to enter rural areas, on a competitively and technologically neutral basis.

The concept of "contract negotiations" is also a non-starter. Such a system would be a huge waste of administrative resources. Literally, hundreds of such negotiations would have to be undertaken. This is far inferior to the Commission's existing structure, which lets the consumer choose the service that best suits their needs, and provides the carrier with a per-line amount *after* a carrier invests and *after* a carrier captures the customer. Negotiations on price and affordability are also unacceptable. Such rate negotiations artificially determine what the market should be doing – causing efficient providers to compete for customers not only on price, but on benefits.

The proposal to "relinquish or share" essential facilities at the end of the term is unworkable. Such requirements present significant entanglements to corporations that wish to transfer their assets. It is also unclear that such a provision would not amount to a constitutional "taking" that requires appropriate compensation.

Given the sad state of broadband penetration in rural America, there is absolutely no justification for just "giving" ILECs an option to be the broadband selectee for ten years. That's an invitation to be substantially where we are today many years, if not a decade, down the road.

What statutory justification is there for having an auction – but protecting one class of carrier? If a more efficient technology could deliver 100 Mbps within in five years, consumers are substantially harmed by setting broadband aside for ILECs for ten. Moreover, the problem of disparity in network infrastructure development between rural and urban areas would be exacerbated by such a proposal.

Finally, this proposal raises possible equal protection concerns in that setting aside such an extraordinary benefit for one class of carrier could be arbitrary in that it would appear to bear no fair and substantial relationship to the purpose or objectives of Section 254 of the Act. The Commission's denial of equal protection in such a way could violate the Due Process Clause of the Fifth Amendment.

XI. Conclusion.

USCC understands the concern that small wireline companies may be left behind as a result of universal service funds being made available to a technology that consumers prefer. But those concerns are unfounded for several reasons.

First, over 50% of wireline carriers own an affiliated wireless network. They have the same opportunities as newcomers to construct and operate wireless networks, and they have well over 90% of the customers for local exchange service to whom they can market wireless service.

Second, wireless licenses are available for purchase, lease, or auction. Wireline carriers are substantial cash generators, as evidenced by the high dividends being paid out by many, and the substantial profit margins of publicly traded wireline companies.[13] They can afford to acquire wireless licenses, either alone or in groups.

[13] For example, Citizens Communications currently yields $1 per share in dividends annually. *See* http://www.czn.com/Data/documents/divrates.pdf. Fairpoint Communications, Inc., which owns and operates 29 rural ILECs in 18 states, recently declared a quarterly dividend of approximately $0.40 per share. *See* http://phx.corporate-ir.net/phoenix.zhtml?c=122010&p=irol-newsArticle&ID=907148&highlight=. CenturyTel's

Third, for wireline companies, voice communications is a receding business in terms of gross revenues and profit margins. The future for wireline companies lies in video, Internet access, and data services, as many are aggressively deploying broadband networks.[14]

In sum, the future is bright for rural wireline carriers. To our knowledge, no company has ever introduced any record evidence that reforming rural universal service mechanisms in the manner advocated by USCC over the years would harm rural consumers. USCC urges the Joint Board to reject auctions in favor of meaningful universal service reforms that will sustain the fund, promote competition, and allow market forces to drive infrastructure development in rural areas.

Respectfully submitted,

UNITED STATES CELLULAR CORPORATION

By: ______________________________

David A. LaFuria
Steven M. Chernoff
Its Attorneys

Lukas, Nace, Gutierrez & Sachs, Chartered
1650 Tysons Blvd.
Suite 1500
McLean, VA 22102
(703) 584-8678

James R. Jenkins, Vice President
Legal and External Affairs
United States Cellular Corporation
8410 West Bryn Mawr
Chicago, IL 60631
(773) 864-3167

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web site touts the company's 33rd consecutive year of increased common dividends, with a yield of $0.625 per share for its most recent quarterly dividend. *See* http://ir.centurytel.com/phoenix.zhtml?c=112635&p=irol-dividends.

[14] *Rural Carriers Plow Ahead With Advanced Services*, Telecommunications Americas, April 2005.

Exhibit A

EXAMPLE OF SUBSIDY LEVELS BEFORE AND AFTER DISAGGREGATION

Note: The chart below reflects the affect of an actual ILEC plan of disaggregation on one carrier. Further analysis would be needed to determine nationwide impact.

CARRIER: Highland Cellular, Inc., West Virginia[15]

Table 1

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	$11.92	$8,177.12
Bluefield	**3,470**	**$11.92**	**$41,362.40**
Bluewell	640	$11.92	$7,628.80
Bramwell	113	$11.92	$1,346.96
Matoaka	239	$11.92	$2,848.88
Oakvale	198	$11.92	$2,360.16
Princeton	**4,521**	**$11.92**	**$53,890.32**
Frankford	282	$37.72	$10,637.04
Rupert	27	$16.80	$453.60

TOTAL WITHOUT DISAGGREGATION: $128,705.28

Table 2

Wire Center Name	Number of Customers	Support Available	Total
Athens	686	$38.24	$26,232.64
Bluefield	**3,470**	**$0.00**	**$0.00**
Bluewell	640	$20.44	$13,081.60
Bramwell	113	$20.44	$2,309.72
Matoaka	239	$38.24	$9,139.36
Oakvale	198	$38.24	$7,571.52
Princeton	**4,521**	**$0.00**	**$0.00**
Frankford	282	$34.04	$9,599.28
Rupert	27	$23.80	$642.60

TOTAL WITH DISAGGREGATION: $68,576.72

[15] Note: Highland Cellular was recently acquired by American Cellular Corp., a subsidiary of Dobson Communications Corp.

Note that Highland Cellular has 3,470 and 4,520 customers within the two population centers located in the ILEC study area (Princeton and Bluefield). Before disaggregation, Highland received $11.92 per line per month for every customer it served within those population centers. Both areas have been constructed without high-cost support.

After disaggregation, the ILEC (Citizens-Frontier) removed all support from the Princeton and Bluefield population centers. Now Highland Cellular gets no support when serving customers in those areas. But in high-cost rural areas such as Athens and Bramwell, where Highland Cellular has few customers and relatively little coverage, it now receives higher levels of support.

As a result of disaggregation, Highland now has an incentive to construct facilities out in these high-cost areas, which is exactly what customers living in those areas need.